

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Otsego County Bus System	County Otsego
Fiscal Year End September 30, 2006	Opinion Date December 15, 2006	Date Audit Report Submitted to State March 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952		
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI	Zip 49788
Authorizing CPA Signature <i>Kenneth A. Talsma</i>		Printed Name Kenneth A. Talsma		License Number 1101024989

Otsego County Bus System

Basic Financial Statements

September 30, 2006

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Otsego County Bus System Committee
Otsego County Board of Commissioners
County Courthouse
225 West Main Street
Gaylord, Michigan 49735

We have audited the accompanying financial statements of the business-type activities of the Otsego County Bus System, a component unit of Otsego County, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Bus System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bus System's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Otsego County Bus System, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006 on our consideration of the Otsego County Bus System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and supplementary schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 15, 2006

Management's Discussion and Analysis

Using this Annual Report

Our discussion and analysis of the Otsego County Bus System's financial performance provides an overview of the Bus System's financial activities for the fiscal year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Bus System and present a longer-term view of the Bus System's finances.

Overview of the Financial Statements

This annual report consists of three parts—Management's Discussion and Analysis (this section), the basic financial statements, and an addition section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Bus System:

- The first two statements are financial statements that provide both long-term and short-term information about the Bus System's overall financial status. These statements report information about the Bus System, as a whole, using accounting methods similar to those used by private-sector companies. The statement of Net Assets includes all of the Bus System's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Bus System's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Bus System's financial health or position.
- The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Bus System as it relates to cash flows operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Bus System as a Whole**Government-Wide Statements**

The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Bus System, as a whole, and about its activities in a way that helps answer the question of whether the Bus System, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Bus System's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues and Expenses, and Changes in Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Bus System's net assets and how they have changed. The reader can think of the Bus System's net assets (the difference between assets and liabilities) as one way to measure the Bus System's financial health or financial position. Over time, increases or decreases in the bus System's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To access the overall health of the Bus System you need to consider additional nonfinancial factors such as changes in the County's property tax base, the condition of the Bus System's buses, and changes in the laws related to the operating assistance received for the Federal and State government.

Financial analysis of the Bus System as a Whole

The Bus System's net assets increased approximately 3.8% or \$39,386, from \$1,035,236 to \$1,074,622 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Net Assets

The overall financial position has increased in 2006. The unrestricted net assets increased by \$57,728 and the investment in capital assets decreased by \$18,342 during 2006. The primary reason for the increase in the unrestricted was the decrease in fuel costs; and a decrease in invested capital assets was due to depreciation expense.

The net assets as of year ended September 30, 2006 are as follows:

	<u>Business-type Activities</u>			
	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>Percent</u>
Current and Other Assets	\$ 199,503	\$ 289,565	\$ 90,062	45.1 %
Capital Assets	<u>1,128,259</u>	<u>994,126</u>	<u>(134,133)</u>	<u>(11.9)%</u>
Total Assets	<u>\$ 1,327,762</u>	<u>\$ 1,283,691</u>	<u>\$ (44,071)</u>	<u>(3.3)%</u>
Current Liabilities	\$ 115,822	\$ 157,165	\$ 41,343	35.7 %
Noncurrent Liabilities	<u>176,704</u>	<u>51,904</u>	<u>(124,800)</u>	<u>(70.6)%</u>
Total Liabilities	<u>292,526</u>	<u>209,069</u>	<u>(83,457)</u>	<u>(28.5)%</u>
Net Assets:				
Invested in Capital Assets	951,555	933,213	(18,342)	(1.9)%
Unrestricted	<u>83,681</u>	<u>141,409</u>	<u>57,728</u>	<u>69.0 %</u>
Total Net Assets	<u>\$ 1,035,236</u>	<u>\$ 1,074,622</u>	<u>\$ 39,386</u>	<u>3.8 %</u>

Changes in Net Assets

	Business-type Activities			
	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>Percent</u>
Operating Revenue:				
Charges for Services	\$ 349,492	\$ 325,491	\$ (24,001)	(6.87)%
Nonoperating Revenue:				
Taxes Levied for Transit	265,840	274,279	8,439	3.17 %
State of Michigan Operating Grants	596,788	593,749	(3,039)	(.51)%
Federal Operating Grants	193,826	276,122	82,296	42.46 %
Interest Earned	2,962	1,706	(1,256)	(42.03)%
Motor Pool	8,476	384	(8,092)	(95.47)%
Nontransportation Revenue	4,865	12,047	7,182	147.62 %
Building Rental	78,000	72,000	(6,000)	(7.69)%
Contributed Services	18,263	17,256	(1,007)	(5.51)%
Subsidies From Other Sectors	<u>505,205</u>	<u>565,765</u>	<u>60,560</u>	<u>11.99 %</u>
Total Revenue	<u>2,023,717</u>	<u>2,138,799</u>	<u>115,082</u>	<u>5.69 %</u>
Operating Expense				
Salaries and Wages	1,571,917	1,486,620	(85,297)	(5.43)%
Depreciation	205,285	172,123	(33,162)	(16.15)%
Other	<u>470,076</u>	<u>590,670</u>	<u>120,594</u>	<u>25.65 %</u>
Total Operating Expense	<u>2,247,278</u>	<u>2,249,413</u>	<u>2,135</u>	<u>.10 %</u>
Income (Loss) Before Contributions	(223,561)	(110,614)	112,947	50.52 %
Capital Contributions	<u>236,668</u>	<u>150,000</u>	<u>(86,668)</u>	<u>(36.62)%</u>
Changes in Net Assets	13,107	39,386	26,279	200.49 %
Beginning Net Assets	<u>1,022,129</u>	<u>1,035,236</u>	<u>13,107</u>	<u>1.28 %</u>
Ending Net Assets	<u>\$ 1,035,236</u>	<u>\$ 1,074,622</u>	<u>\$ 39,386</u>	<u>3.80 %</u>

Capital Asset and Debt Administration

At September 30, 2006, the Bus System had \$994,126 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$134,133 or 11.89% as follows:

	<u>2005</u>	<u>2006</u>	<u>Total Percentage Change 2005-2006</u>
Capital Assets Not Being Depreciated			
Land	<u>\$ 99,998</u>	<u>\$ 99,998</u>	<u>0 %</u>
Subtotal	<u>99,998</u>	<u>99,998</u>	<u>0 %</u>
Capital Assets Being Depreciated			
Building	760,033	760,033	0 %
Vehicles	1,272,886	1,293,753	1.64 %
Equipment	<u>200,018</u>	<u>200,018</u>	<u>0 %</u>
Subtotal	<u>2,232,937</u>	<u>2,253,804</u>	<u>.93 %</u>
Total Capital Assets	<u>2,332,935</u>	<u>2,353,802</u>	<u>.89 %</u>
Total Accumulated Depreciation	<u>1,204,676</u>	<u>1,359,676</u>	<u>12.87 %</u>
Total Net Capital Assets	<u>\$ 1,128,259</u>	<u>\$ 994,126</u>	<u>(11.89)%</u>

Please refer to the notes to the financial statements for more detailed information.

Economic Factors and Next Year's Budget

The FY2007 budget was projected lower than the FY2006 budget and is \$1,610,716. This decrease is due to lower fuel cost than FY2006, and lower employee fringe benefits and liability costs. The bus system will continue to operate as it has with a slow growth operational mindset to ensure the economic problems within our state and federal funding do not have an impact on the services we are currently providing.

Contacting the Bus System's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Bus System's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Otsego County Bus System's Office at 1254 Energy Drive, Gaylord, Michigan 49735.

Basic Financial Statements

Otsego County Bus System, Michigan

Statement of Net Assets September 30, 2006

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 52,247
Accounts Receivable:	
Accounts Receivable - General	32,482
Due From Other Counties	141,154
Due From State	<u>63,682</u>

Total Current Assets	<u>289,565</u>
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Noncurrent Assets:

Capital Assets - not being Depreciated	99,998
Capital Assets - Net of Accumulated Depreciation	<u>894,128</u>

Total Noncurrent Assets	<u>994,126</u>
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Total Assets	<u><u>\$ 1,283,691</u></u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 25,496
Accrued Payroll	48,618
Due to State	50,582
Note Payable	9,009
Other Liabilities	<u>23,460</u>

Total Current Liabilities	<u>157,165</u>
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Non Current Liabilities:

Long-term Advance	26,704
Note Payable	<u>25,200</u>

Total Non Current Liabilities	<u>51,904</u>
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Total Liabilities	<u>209,069</u>
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NET ASSETS

Invested in Capital Assets - Net of Related Debt	933,213
Unrestricted	<u>141,409</u>

Total Net Assets	<u><u>\$ 1,074,622</u></u>
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Otsego County Bus System, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended September 30, 2006

Operating Revenue	
Fares - Demand Responses	\$ 103,206
Fares - Contractual	198,950
Freight Tariffs/Meals on Wheels	<u>23,335</u>
Total Operating Revenue	<u>325,491</u>
Operating Expenses	
Salaries and Wages	1,486,620
Depreciation	172,123
Other	<u>590,670</u>
Total Operating Expenses	<u>2,249,413</u>
Operating Income (Loss)	<u>(1,923,922)</u>
Nonoperating Revenue	
Taxes Levied for Transit	274,279
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	593,749
Federal Operating Grants	
USDOT Operating Grant (section 5311)	256,260
Prior Years' Adjustments	19,862
Interest Earned	1,706
Motor Pool	384
Nontransportation Revenue	12,047
Building Rental	72,000
Contributed Services	17,256
Subsidies from Other Sources	<u>565,765</u>
Total Nonoperating Revenue	<u>1,813,308</u>
Income (Loss) Before Contributions	(110,614)
Capital Contributions	
State of Michigan Capital Grant	30,000
Federal Capital Grant	<u>120,000</u>
Changes in Net Assets	39,386
Total Assets - October 1, 2005	<u>1,035,236</u>
Total Assets - September 30, 2006	<u><u>\$ 1,074,622</u></u>

Otsego County Bus System, Michigan

Statement of Cash Flows For the Year Ended September 30, 2006

Cash Flows From Operating Activities:

Cash Received From Customers	\$ 235,915
Cash Payments to Employees for Service and Benefits	(1,497,174)
Cash Payments to Suppliers for Goods and Services	<u>(547,782)</u>

Net Cash Provided by Operating Activities	<u>(1,809,041)</u>
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Cash Flows From Noncapital Financing Activities:

Nontransportation Revenue	12,047
Motor Pool	384
Subsidies From Other Sectors	565,765
State Grants	593,749
Federal Grants	256,260
State and Federal Grants - Prior Year Adjustment	19,862
Property Tax	274,279
Building Rental	72,000
Contributed Services	<u>17,256</u>

Net Cash Provided by Noncapital Financing Activities	<u>1,811,602</u>
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Cash Flows From Capital and Related Financing Activities:

Capital Assets Purchased With Transit Corporation Money	(37,990)
Proceeds from Note Payable	37,990
Repayment of Principal	(3,781)
Long-Term Advance From County	(150,000)
Federal and State Capital Assistance	<u>150,000</u>

Net Cash Provided From Capital and Related Financing Activities	<u>(3,781)</u>
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Cash Flows From Investing Activities:

Interest on Cash Equivalents	<u>1,706</u>
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Net Cash Provided by Investing Activities	<u>1,706</u>
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Net Increase in Cash and Cash Equivalents	486
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Cash and Cash Equivalents at Beginning of Year	<u>51,761</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$ 52,247</u></u>
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Reconciliation of Operating Income to Net Cash

Provided by Operating Activities (Noncash Items):	\$ (1,923,922)
Depreciation Expense	172,123
(Increase) Decrease in Accounts Receivable	(89,576)
Increase (Decrease) in Accounts Payable	(14,750)
Increase (Decrease) in Other Accrued Liabilities	<u>47,084</u>

Net Cash Provided by Operating Activities	<u><u>\$ (1,809,041)</u></u>
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Notes to Financial Statements

NOTE 1 - REPORTING ENTITY

The purpose of the Otsego County Bus System Fund is to acquire, operate and manage a public transportation system within the boundaries of Otsego County.

The criteria established by the Governmental Accounting standards Board (GASB) Statement No. 14 and amended by GASB Statement No. 39, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, the financial statements of the Otsego County Bus System are a component unit of Otsego County. The Otsego County Bus System Fund is, for financial reporting purposes within generally accepted accounting principles, and enterprise fund of Otsego County.

The Otsego County Bus System is not legally separate but is administered by a three member standing committee of the County Board of Commissioners. The Bus System Committee may not issue debt and the tax levy is subject to County board of commissioner's approval. The Bus System taxes are levied under the taxing authority of the County, as approved by the County electors, and is included as part of the County's total tax levy as well as reported in the Bus System Fund.

The Otsego County Bus System is used to control the expenditures of Michigan Transportation Fund and Federal Transportation Fund moneys distributed to the County which are earmarked by law for transportation purposes. The County Board of Commissioners is responsible for the administration of the Otsego County Bus system.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

The financial activities of the Bus System are recorded in an enterprise fund. This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for providing busing services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of the busing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expense. The government applies all applicable FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements in accounting and reporting for its proprietary operations. The County has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operations.

When both restricted and unrestricted resources are available for use, it is the Bus System's policy to use restricted resources first, then unrestricted resources as needed.

Cash, Cash Equivalents and Investments

For purposes of the statements of cash flows, demand deposits and short-term investments with a maturity date of three months or less, when acquired, are considered to be cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the operating fund in the government-wide financial statements. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Provisions for depreciation of the capital assets are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

Operating Facility	12 to 20 years
Vehicles	3 to 7 years
Shop Equipment	3 to 10 years
Office Equipment	6 to 10 years

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Property Taxes

The County Bus System's property tax is levied each December 1st based on the State taxable valuation of property located in the County as of the preceding December 31st. The Otsego County Bus System 2005 ad valorem tax was levied and collectible on December 1, 2005. It is the policy of Otsego County Bus System to recognize revenue from the current tax levy in the 2005/2006 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Bus System's operations.

The 2005 taxable valuation of Otsego County property amounted to \$1,122,998,918 on which ad valorem taxes of .2500 for the Bus System were levied in the amount of \$280,750 for the Bus System.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; disclosures of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cost Allocations

The Bus System has cost allocation plans for all allocated expenses. All allocation plans are approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation. These expenses include amounts charged to the program for time spent by accounting personnel in maintaining financial records of the program.

Fiscal Year

The Otsego County Bus System operates on the fiscal year of the grantor, October 1 to September 30. The fiscal year differs from the December 31 fiscal year of the County.

NOTE 3 - CASH DEPOSITS

Deposits are carried at cost. Deposits of the Bus System Fund are at various banks in the name of the Otsego County Treasurer. Michigan Compiled Laws, Section 129.91 at al., authorizes the County to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTE 3 - CASH DEPOSITS (Continued)

The County's deposits and investments are in accordance with State statutory authority. The balance sheet caption "Cash and Cash Equivalents" includes \$200 of imprest cash.

The risk disclosures for the Bus System deposits are required by GABS Statement No. 40, are not available in that the Bus System's cash deposits are part of the County's common bank account. The Bus System would receive its proportional share of insurance coverage. The book balance of the Bus System Fund as of September 30, 2006 was \$52,047. The insurability of this amount in the County's common account is not determinable.

Investments Authorized by the County's Investment Policy

The County's investment policy authorizes investment in all those that are authorized by law. As stated above, the County did not have any investments in the fiscal year ended September 30, 2006.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's investment policy does not contain specific provisions to limit the County's exposure to credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County's investment policy does not contain specific provisions to limit the County's exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater. The County's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the County's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

NOTE 3 - CASH DEPOSITS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the County's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The County is not exposed to custodial credit risk for investments.

NOTE 4 - RECEIVABLES

The accounts receivable balance consists of contract fares, advertising, and regular fares in the amount of \$32,482 that were earned but not yet received at September 30, 2006.

The "Due from Other Counties" consists of the August and September charges for services to Cheboygan County in the amount of \$141,154.

The following amounts were due from the State at September 20, 2006:

Federal Section 5311 FY 2005 Operating Assistance Contract 02-0079Z17	\$ <u>63,682</u>
Total Due From State	\$ <u>63,682</u>

NOTE 5 - ADVANCE FROM COUNTY (PRIMARY GOVERNMENT)

During the year ending September 30, 2004, the County advanced the Bus System \$300,000 to assist in the acquisition of a new facility. The Bus System paid \$50,000 back to the County during the 2004 fiscal year reducing the balance to \$250,000. During the 2005 fiscal year, the Bus System received a grant for \$73,296 to reduce the balance to \$176,704. During the 2006 fiscal year, the Bus System received a grant for \$150,000 to reduce the balance to \$26,704.

The Bus System has agreed to begin paying the remaining balance to the County in monthly installments of \$1,000 at a 4% rate of interest.

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the Bus System for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 99,998	\$ -	\$ -	\$ 99,998
Subtotal	<u>99,998</u>	<u>-</u>	<u>-</u>	<u>99,998</u>
<i>Capital Assets Being Depreciated:</i>				
Building	760,033	-	-	760,033
Vehicles	1,272,886	37,990	17,123	1,293,753
Equipment	<u>200,018</u>	<u>-</u>	<u>-</u>	<u>200,018</u>
Subtotal	<u>2,232,937</u>	<u>37,990</u>	<u>17,123</u>	<u>2,253,804</u>
<i>Less Accumulated Depreciation for:</i>				
Building	80,226	38,002	-	118,228
Vehicles	1,026,961	115,058	17,123	1,124,896
Equipment	<u>97,489</u>	<u>19,063</u>	<u>-</u>	<u>116,552</u>
Subtotal	<u>1,204,676</u>	<u>172,123</u>	<u>17,123</u>	<u>1,359,676</u>
Net Capital Assets Being Depreciated	<u>1,028,261</u>	<u>(134,133)</u>	<u>-</u>	<u>894,128</u>
Total Capital Assets – Net of Depreciation	<u>\$ 1,128,259</u>	<u>\$ (134,133)</u>	<u>\$ -</u>	<u>\$ 994,126</u>

	<u>Purchased With Bus System Funds</u>	<u>Purchased With Capital Grants</u>	<u>Total</u>
Building	\$ 500,088	\$ 259,945	\$ 760,033
Vehicles	192,942	1,100,811	1,293,753
Equipment	186,692	13,326	200,018
Land	<u>73,337</u>	<u>26,661</u>	<u>99,998</u>
Subtotal	953,059	1,400,743	2,353,802
Less: Accumulated Depreciation	<u>333,676</u>	<u>1,026,000</u>	<u>1,359,676</u>
Net Property and Equipment	<u>\$ 619,383</u>	<u>\$ 374,743</u>	<u>\$ 994,126</u>

NOTE 7 - NOTE PAYABLE

The Authority entered into a loan contract with the Bank of Northern Michigan. The loan is secured by two vans purchased by the note. The loan, in the amount of \$37,990, is payable in forty-eight installments of \$876 for four years, including interest at the rate of 5.00%. The first payment was due on June 10, 2006. Activity of the note payable for the year ended September 30, 2006 is summarized as follows:

Balance, October 1, 2005	\$ -
Additions	37,990
Deletions (payments)	<u>(3,781)</u>
Balance, September 30, 2006	<u>34,209</u>
Less: Current Portion	<u>9,009</u>
Long-term Portion	<u>\$ 25,200</u>

Maturities of principal and interest over the remaining life of the note payable are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 9,009	\$ 1,506	\$ 10,515
2008	9,470	1,045	10,515
2009	9,955	560	10,515
2010	<u>5,775</u>	<u>92</u>	<u>5,867</u>
Total	<u>\$ 34,209</u>	<u>\$ 3,203</u>	<u>\$ 37,412</u>

NOTE 8 - EMPLOYEES' RETIREMENT SYSTEM

Otsego County Bus System's full-time employees participate in the employee retirement system of Otsego County. Otsego County is in an agent multiple-employer defined benefit pension plan with the Municipal Employee's Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, and post-retirement adjustments to plan members and their beneficiaries.

The Otsego County Bus System Fund employer contributions were made as actuarially determined in the December 31, 2002 evaluation, the most recent period for which actuarial data was available for the calendar year ended December 31, 2005. The annual actuarial report for Otsego County is dated each year for the period December 31 and has no separate data for the Otsego County Bus System. Accordingly, there is no separate data to report here.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

NOTE 8 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Fund Policy

The members are not required to contribute to the plan. The Otsego County Bus System's pension contribution of covered payroll for the period ending December 31, 2003, 2004 and 2005 was 7.18% of covered wages.

If a member leaves the employ of the municipality or dies, without a retirement allowance or other benefit payable on his/her account, the member's accumulated contributions(with 5% interest) are refunded to the member, if living, or to the member's beneficiary.

Annual Pension Cost

Actuarial report contains information on Otsego County as a whole. The most recent data available is as follows:

The County pays the Otsego County Bus System's pension during the calendar year ended December 31, 2005, the County's contributions totaled \$833,027; and during the calendar year ended December 31, 2004, the County's contributions totaled \$726,048. These contributions were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2002 and 2003 respectively. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31 follows:

	2003	2004	2005
Actuarial Value of Assets	\$ 8,862,940	\$ 9,846,623	\$ 10,723,733
Actuarial Accrued Liability	13,282,225	14,272,389	15,402,046
Unfunded AAL	4,419,285	4,425,766	4,678,313
Funded Ratio	67%	69%	70%
Covered Payroll	5,579,432	5,370,888	5,323,075
UAAL as a Percentage of Covered Payroll	79%	82%	88%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 680,432	100%	\$ -
2004	726,048	100%	-
2005	833,027	100%	-

NOTE 9 - COMPENSATED ABSENCES

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Sick leave is earned at the beginning of the calendar year at a rate of 56 hours per full-time employee per year. Any unused sick leave is paid to the employee on the closest pay period to Christmas. There is no carry over of sick leave hours allowed.

Upon termination, an employee receives payment for the balance of any unused vacation leave which was credited on the employee's anniversary date. Employees can carry over a maximum of 40 hours of vacation leave to the next year. Unused sick leave is paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2006 will be paid from current financial resources and is not recorded as a long-term liability.

NOTE 10 - RISK MANAGEMENT

The Bus System is included with the County provisions for risk management. The following County provisions apply to the calendar year ended December 31, 2005.

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance, and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage, and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege, or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance, and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions, as received by MMRMA, are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the member retention fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs.

NOTE 10 - RISK MANAGEMENT (Continued)

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Trust and Agency Fund. At December 31, 2005, the balance of the County's member retention was \$70,885.

<u>Coverage</u>	<u>Self-Insurance Retention</u>
Liability	\$75,000
Vehicle Physical Damage \$1,000 Member Deductible	\$15,000 Per Vehicle \$30,000 Per Occurrence
Property and Crime \$1,000 Deductible Per Occurrence	10% of the Next \$100,000
Employee Benefits – Commercial Insurance Provider	

Workers' Compensation

The County is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for workers' disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611, Paragraph (2) OF THE Workers' Disability Compensation Act of 1969, as amended.

At December 31, 2005, there were no claims which exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

Supplementary Information

Otsego County Bus System**Schedule 1
Operating Expenses
For the Year Ended September 30, 2006**

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
Labor				
Operator's Salaries and Wages	\$ 633,173	\$ 85,752	\$ 121,094	\$ 840,019
Other Salaries and Wages	172,266	-	-	172,266
Fringe Benefits	331,426	61,322	81,587	474,335
Services	12,453	18,906	73,463	104,822
Material and Supplies Consumed				
Fuel and Lubricants	246,636	1,238	-	247,874
other Materials and Supplies	135,319	574	7,833	143,726
Utilities	-	-	48,924	48,924
Miscellaneous Expenses	2,058	728	7,217	10,003
Casualty and Liability Costs	-	-	25,000	25,000
Leases and Rentals	-	1,129	9,192	10,321
Depreciation	<u>161,796</u>	<u>3,442</u>	<u>6,885</u>	<u>172,123</u>
Total	<u>\$ 1,695,127</u>	<u>\$ 173,091</u>	<u>\$ 381,195</u>	<u>\$ 2,249,413</u>

Otsego County Bus System**Schedule 2A****Net Eligible Cost Computations of General Operations
For the Year Ended September 30, 2006**

	Federal Section 5311	State Operating Assistance
Operating Expenses		
Labor	\$ 1,012,285	\$ 1,012,285
Fringe Benefits	474,335	474,335
Services	104,822	104,822
Materials and Supplies	391,600	391,600
Utilities	48,924	48,924
Miscellaneous	10,003	10,003
Casualty and Liability Costs	25,000	25,000
Leases and Rental	10,321	10,321
Depreciation	172,123	172,123
Total Operating Expenses	2,249,413	2,249,413
Less: Ineligible Expenses		
Depreciation	124,331	124,331
Interest Expense	600	600
Leases and Rentals	1,075	1,075
MPTA Dues	136	136
Straits Regional Ride (Schedule 2B)	590,582	590,582
Motor Pool Expenses	384	384
Audit	5,324	-
Utilities Covered by Rental Income	19,570	19,570
Total Ineligible Expenses	742,002	736,678
Net Eligible Expenses	1,507,411	1,512,735
Net Deficit Federal Section 5311	\$ 1,507,411	
Section 5311 Reimbursement (17%)	\$ 256,260	
Net Eligible State Operating Assistance		\$ 1,512,735
State Operating Assistance (39.25%)		\$ 593,749

Otsego County Bus System

Schedule 2B

Analysis of Audit Adjustment on Straits Ride Ineligible Expense For the Year Ended September 30, 2006

Otsego Bus Total Expenses Per Year End

Operating Assistance Report	\$	1,421,779	71.38%	
Reported Ineligible Expenses for Straits Ride		<u>569,956</u>	<u>28.62%</u>	(a)
	\$	<u>1,991,735</u>	<u>100.00%</u>	

	(b) Ineligible Expenses for Straits Ride	Total Audit Adjustments	(c)=(b) x (a) Pro-rata Share related to Straits Ride	(b) + (c) Ineligible Expenses for Straits Ride After Audit
<u>Ineligible Operating Expenses for Straits Ride</u>				
Operating Salaries and Wages	\$ 189,528	\$ 45,470	\$ 13,012	\$ 202,540
Other Salaries and Wages	20,048	9,708	2,778	22,826
Dispatcher Salaries and Wages	56,717	9,260	2,650	59,367
Other Fringe Benefits	142,003	7,640	2,186	144,189
Advertising Fees	618	-	-	618
Audit Costs	3,500	-	-	3,500
Fuel and Lubricants	93,376	-	-	93,376
Tires and Tubes	9,776	-	-	9,776
Other Materials and Supplies	30,703	-	-	30,703
Utilities	600	-	-	600
Premium for Public Liability	13,841	-	-	13,841
Leases and Rentals	<u>9,246</u>	<u>-</u>	<u>-</u>	<u>9,246</u>
	<u>\$ 569,956</u>	<u>\$ 72,078</u>	<u>\$ 20,626</u>	<u>\$ 590,582</u>

Adjustments totaling \$172,123 relating to depreciation and \$150,000 relating to the down payment of the new bus facility are excluded from this schedule as capital related expenses are not charged to the Straits Ride.

Otsego County Bus System

Schedule 3 Mileage Data - Unaudited For the Year Ended September 30, 2006

	Public Transportation Mileage
<u>Demand Response</u>	
First Quarter	128,731
Second Quarter	106,882
Third Quarter	111,256
Fourth Quarter	<u>103,628</u>
Total Operations	<u><u>450,497</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Otsego County Bus System

Schedule 4

Schedule of Expenditures of Federal and State Awards (1) (2) For the Year Ended September 30, 2006

	Federal CFDA Number	State Grantor Number	Program or Award Amount	Federal Receipts/ Revenue	State Receipts/ Revenue	Disbursements/ Expenditures
U.S. Department of Transportation						
Passed Through Michigan Department of Transportation: Capital Assistance - Section 5309	20.500	2002-0079-Z16	\$ 150,000	\$ 120,000	\$ 30,000	\$ 150,000
Total Capital Assistance				120,000	30,000	150,000
U.S. Department of Transportation						
State and Federal Operating Assistance Computations Based on Operating Expenses: Passed Through MDOT:						
Operating Assistance - Section 5311	20.509	2002-0079-Z17	296,409	256,260	-	256,260
Michigan Department of Transportation Operating Assistance - Act 51	N/A		684,437	-	593,749	593,749
Net Unreimbursed Eligible Operating Expenses				-	-	662,726
Total Operating Assistance				256,260	593,749	1,512,735
Total Capital and Operating Assistance				\$ 376,260	\$ 623,749	\$ 1,662,735

This schedule is prepared on an accrual basis of accounting as described in the summary of significant accounting policies in Note 2 of the Notes to Financial Statements.

**Notes to Schedule of Expenditures of
Federal and State Awards
For the Year Ended September 30, 2006**

1. The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all Federal and State awards programs of the Otsego County Bus System. Federal and State awards received directly from Federal or State agencies, as well as Federal or State awards passed through other government agencies, are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis of accounting, which is described in Note 2 of the Bus System/s basic financial statements.
3. Otsego County Bus system only recognized \$256,260 of the maximum Section 5311 Reimbursement of \$296,409 based on the net eligible costs computation presented as Schedule 2A.
4. State operating assistance of \$593,749 was recognized based on the net eligible costs computation presented as Schedule 2. The actual revenue to be received from the State is uncertain because the revenue is based on a fixed amount of statewide available funding. It could be as low as the Bus System's 1997 floor amount or as high as the statutory cap of 60% of eligible operating expenses. MDOT will recalculate the State operating assistance percentage in Schedule 2A, after audited close-outs, based on statewide eligible expenses.

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Otsego County Bus System Committee
Otsego County Board of Commissioners
County Courthouse
225 West Main Street

We have audited the financial statements of the Otsego County Bus System, a component unit of Otsego County, as of and for the year ended September 30, 2006, and have issued or report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Otsego County Bus System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Otsego County Bus System's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 06-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Otsego County Bus System's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Otsego County Bus System in a separate letter dated December 15, 2006.

This report is intended solely for the information and use of the management, Board of Commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 15, 2006

Financial Statement Findings

MATERIAL WEAKNESSES

Balance Sheet Account Reconciliation

Finding 06-1

Condition: The Otsego County Bus system does not properly reconcile its balance sheet accounts including: accounts receivable, capital assets and accumulated depreciation, accrued wages, and compensated absences.

Criteria: Generally Accepted Accounting Principles (GAAP) and the Michigan Department of Treasury require proprietary funds to be maintained on a full accrual basis and that all accounts be reconciled with their respective subsidiary ledgers. Accounts receivable, and the accrued wage liability should be recorded to properly match the fiscal year's revenues and expenses. Capital assets, accumulated depreciation, and depreciation expense should reconcile with an up to date capital asset listing. Finally, the compensated absence liability should reconcile to the employee's balance at the end of the fiscal year.

Cause and Effect: Failure to post complete accounting records on a timely basis may result in the following:

- The financial condition of the Bus System may not be readily available.
- The board may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
- The amounts reported on the bus System's operating assistance report would be inaccurate affecting the amount of State and Federal aid received.

Recommendation: We recommend that the Bus System implement procedures to assure that all balance sheet accounts are properly reconciled on a monthly basis. This would ensure the errors are detected and corrected in a timely manner.



ANDERSON, TACKMAN & COMPANY, PLC
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MICHIGAN & WISCONSIN**

REPORT TO MANAGEMENT

Otsego County Bus System Committee
Otsego County Board of Commissioners
County Courthouse
225 West Main Street
Gaylord, Michigan 49735

We have audited the financial statements of the Otsego County Bus System for the year ended September 30, 2006, and have issued our reports thereon dated December 15, 2006. Professional standards require that we provide you with the following, information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Otsego County Bus System. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Otsego County Bus System's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Otsego County Bus System are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Otsego County Bus System during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability. An example of an estimate used by the Authority is the useful lives of their fixed assets.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Otsego County Bus System's financial reporting process (that is, cause financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Otsego County Bus System, either individually or in the aggregate indicate matters that could have a significant effect on the Otsego County Bus System's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Otsego County Bus System’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Otsego County Bus System’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit. Other communications were communicated orally with management during the audit process.

Comments and Recommendations

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the Otsego County Bus System required to implement the Statement for the year ended September 30, 2008. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the Otsego County Bus System will be required to fund these benefits. Beginning in fiscal 2008, the Otsego County Bus System will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Otsego County Bus System as well as Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of management and the County Board of Commissioners of Otsego County, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 15, 2006